

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

owners — one of which is identifying ways to minimize income taxes and free up cash flow for growth, debt reduction, distribution to owners, and other operational uses.

Nov. 21, 2017

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us



Architecture and engineering firm CFOs have many responsibilities to their firms and owners — one of which is identifying ways to minimize income taxes and free up cash flow for growth, debt reduction, distribution to owners, and other operational uses.

When working with your external tax and financial advisors, try to identify ways beyond the normal cash management of the firm operational expenses, owner compensation, and bonuses to accelerate the timing of deductions. Using strategies like [bonus depreciation](#), [expensing qualified equipment](#), or [cost segregation](#) studies on owned buildings or significant leasehold interests can provide strategic tools for your firm. The goal is to improve the present value of the post-tax cash flow to the firm and its owners.

In conjunction with traditional [tax planning](#), several specialized tax strategies apply

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

available.

Commercial energy efficiency studies for government buildings (Section 179D deduction)

The [Section 179D deduction](#) (currently expired with prospects of renewal) is available to the primary designer of the technical specifications for certain [energy efficient building systems](#) placed in service in the renovation or new construction of government-owned buildings.

Building systems that qualify include:

- Interior lighting systems
- HVAC
- Building envelope

The governmental entity, which is not a tax-paying entity, must assign the tax benefits in writing to the firm that designed the building systems.

Independent testing must be done using approved U.S. Department of Energy modeling software to certify the energy efficiency as measured against a base building using ASHRAE building standards. If certified, a tax deduction ranging from \$.45-\$1.80 per building square foot is available to the architecture and engineering firm designer, depending upon the energy savings achieved.

Research and development (R and D) tax credit studies

Many firms engaged in systematic research may be able to [claim a tax credit](#)

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

have to be unique and new to the world, just unique and new to you.

Although this is available on lump-sum and fixed-price client contracts, the IRS has repeatedly disallowed “cost plus time and materials” contracts, and guaranteed maximum price contracts.

Recent legislation permits the R and D credit for eligible small businesses to offset the Alternative Minimum Tax (AMT), and for certain qualified small businesses, it may offset payroll taxes.

Both the R and D credit and the 179D deduction can free up cash to be used for growth and debt reduction, and the savings can then be converted into dividends or distributions. The result provides owners with cash at a significantly lower effective tax rate than compensation. Both can also be retroactively claimed through amended return filings.

Interest Charge-Domestic International Sales Corporation (IC-DISC)

An [IC-DISC](#) is a great way to create a permanent tax savings of 20 percent or higher for the owners of an architecture and engineering firm on a portion of the firm's international activities. An IC-DISC is a separate “paper” corporate entity established by a U.S.-based architecture and engineering firm or some of its owners that has no impact on the way the firm does business (the owners of the IC-DISC do not have to be the same owners of the architecture and engineering firm).

[IC-DISC benefits](#) apply to qualifying engineering and architectural services performed outside the United States, such as:

- Site preparation

- Equipment installation

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

179D deduction and R and D tax credit will be extended

Although the 179D deduction expired for property placed in service after December 31, 2016, we fully expect it will be extended by Congress.

Proposed changes for the extension of the 179D deduction include:

- Updating the current building standard, which will make it more difficult to qualify, and push the drive for better energy efficiency, which is in line with the goal of carbon neutrality via the [2030 Challenge](#).
- Expanding the current type of qualifying building to include 501(c)(3) charities and tribal governments.
- Possibly converting the current tax deduction to a tax credit.

How we can help

CLA works with more than 400 architectural, engineering, and design firms nationwide. Our federal tax professionals have the technical experience to [provide support to firms](#) interested in R and D tax credits, energy efficient building deductions, and the benefits of the IC-DISC designation. To most effectively use these unique tax strategies, you may need to modify your current compensation and bonus systems.

The information contained herein is general in nature and is not intended, and should not be construed, as legal, accounting, investment, or tax advice or opinion provided by CliftonLarsonAllen LLP (CliftonLarsonAllen) to the reader. For more information, visit [CLAconnect.com](#).

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

Sponsors.

© 2024 Firmworks, LLC. All rights reserved